

Message From the Chief Financial Officer

Michael L. Telson

I am pleased to present the Department of Energy's consolidated financial statements and disclose our financial condition and the results of operations for FY 1997. Last year, for FY 1996, the Department submitted its first consolidated financial statements to the Office of Management and Budget and was one of only six Federal agencies to receive an unqualified audit opinion. That submission represented the only time a Cabinet level department or agency received an unqualified opinion on their first effort to prepare department-wide statements. Building on our past experience, the Office of the Chief Financial Officer has prepared the following comprehensive Departmental statements for FY 1997 in accordance with the requirements of the Office of Management and Budget, the Chief Financial Officers Act of 1990, and the Government Management Reform Act of 1994.

The Department of Energy continues to emphasize professional excellence, accountability, and responsibility in the administration of its programs. Roles and responsibilities in financial management have been institutionalized by the Chief Financial Officers Act, and require aggressive efforts of agencies to promote an environment of positive financial stewardship in the Federal Government. Our efforts and initiatives toward improved financial management have been challenged by increasing requirements and expectations during a period of declining resources. These initiatives include consolidating selected accounting functions from nineteen field accounting offices to three financial service centers, and implementing new Government-wide Federal Financial Accounting Standards, such as the early implementation of Standard Number 4, *Managerial Cost Accounting Concepts and Standards*. Another challenging initiative that significantly impacts these financial statements involves the effect on unfunded liabilities as the Department moves toward an accelerated cleanup approach for the Environmental Management program. This new accelerated approach is designed to complete the cleanup of as many sites as possible by 2006 and addresses life cycle costs associated with the more rapid disposal of nuclear materials and waste.

The Department, and the Federal government as a whole, are experiencing significant financial management changes that are making us more efficient, effective and accountable. These changing requirements and expectations continue to demand the diligence, dedication, and effective use of all our resources to ensure the Department fulfills its financial responsibility to the American taxpayer, the Congress, and the President. Although the Department has continued to reduce its staffing, we are striving to develop smarter management practices in order to cut costs, save taxpayer dollars and do more with less. Downsizing and reengineering initiatives coupled with the application of quality principles are refocusing our efforts toward streamlining activities, instituting performance measurement oversight and continuing to place customer service high on our list of priorities. Our current financial initiatives are critical to the achievement of our Departmental goals.

A handwritten signature in black ink that reads "mhl Telson".

Michael L. Telson
Chief Financial Officer

Financial Overview

This financial overview of the consolidated financial statements contains highlights of significant balances contained in the consolidated financial statements and related financial performance measures. The financial performance measures were developed by the Office of the Chief Financial Officer in partnership with Headquarters and Field Offices to implement a performance-based oversight strategy.

Highlights of Significant Balances (comparative FY 1996 balances provided where appropriate)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS - The Consolidated Statement of Financial Position reflects total assets of **\$96.8** billion (FY 1996-\$94.0 billion) and primarily consists of the following:

Fund Balances with Treasury of **\$10.5** billion (FY 1996-\$10.9 billion) consist primarily of appropriated funds to pay current liabilities and finance authorized purchase commitments.

Investments of **\$8.4** billion (FY 1996-\$7.1 billion) consist primarily of monies managed for the Nuclear Waste Fund and the Uranium Enrichment Decontamination and Decommissioning Fund. Fees paid by owners and generators of spent nuclear fuel and high level radioactive waste, and fees collected from domestic utilities are deposited in the respective funds to pay current program costs, with any excess funds invested in Treasury securities. The \$1.3 billion increase in the Department's investments during FY 1997 occurred as a result of normal investing of fees received.

Accounts Receivable of **\$5.3** billion (FY 1996-\$5.5 billion) consist of intragovernmental receivables of \$563 million resulting primarily from reimbursable work performed for other Federal agencies and governmental receivables due from the public of \$4.7 billion primarily for Nuclear Waste Fund and Uranium Enrichment Decontamination and Decommissioning Fund fees.

Stockpile Materials of **\$37.5** billion (FY 1996-\$39.5 billion) consist of crude oil at the Strategic Petroleum Reserve and nuclear materials. The Strategic Petroleum Reserve component of \$15.0 billion represents the cost of 555 million barrels of crude oil stored in salt domes, terminals, and pipelines. The reserve provides a deterrent to the use of oil as a political instrument and provides an effective response mechanism should a disruption occur. The nuclear materials of \$22.5 billion consist primarily of weapons and related components, including those in the custody of the Department of the Defense under Presidential Directive, and materials used for research and development purposes.

Property, Plant and Equipment of **\$20.8** billion (FY 1996-\$22.0 billion) includes over 124 million square feet of buildings located on over 2.5 million acres of land. The

Department's property and equipment values have been adjusted to reflect the Department's changing mission (e.g. downsizing of the defense complex) and to be in compliance with applicable accounting standards and guidance. During FY 1997, the Department raised its capitalization threshold from \$5,000 to \$25,000 for all field elements except the power marketing administrations. This change in accounting policy resulted in a \$694 million charge to expense.

Regulatory Assets of **\$13.2** billion (FY 1996-\$8.0 billion) are associated with the Department's power generation and management responsibilities. These regulatory assets represent the Bonneville Power Administration's (BPA) right to future revenues generated from non-Federal power generator projects in return for BPA's payment of debt issued to complete these projects. The \$5.2 billion increase in regulatory assets is attributable to the BPA Appropriation Refinancing Act of 1994 requiring DOE to assume a liability to repay the unpaid balance of capital appropriations of the power generating assets of the Corps of Engineers and the Bureau of Reclamation associated with the Federal Columbia River Power System.

LIABILITIES - The Consolidated Statement of Financial Position reflects Departmental liabilities totaling **\$221.9** billion (FY 1996-\$264.6 billion). The following significant liabilities represent the amount of monies or other resources that are likely to be paid by the Department as a result of transactions or events that have already occurred.

Deferred Revenues and Other Credits of **\$9.2** billion (FY 1996-\$8.4 billion) primarily represent the amount of Nuclear Waste Fund revenues that exceed the Nuclear Waste Fund expenses. Nuclear Waste Fund revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and are recognized as costs are incurred for Nuclear Waste Fund activities.

Environmental Liabilities of **\$180.6** billion (FY 1996-\$229.1 billion) represent the Department's obligation to correct the environmental damage incurred throughout the DOE complex while researching, producing and testing nuclear weapons. This complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities where environmental contamination occurred as a result of operations. The environmental legacy derived from the process of producing nuclear weapons includes thousands of contaminated areas and buildings, and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. The Department's environmental liability also includes the cost of addressing existing wastes and those facilities that have been declared surplus, as well as the cost to decontaminate and decommission facilities still operating. This liability is also significant from a Government-wide perspective in that it is one of the largest in the Federal government, and is the primary reason for the deficit Net Position of **(\$125.1)** billion reflected on the Consolidated Statement of Operations and Changes in Net Position. This liability decreased by \$48.5 billion from last year's estimate due primarily to a new vision

for addressing the legacy of the cold war and disposing of nuclear materials and waste. The new vision and proposed strategy were released in a June 1997 Discussion Draft "Accelerating Cleanup: Focus on 2006" and provided the basis for the FY 1997 estimates developed by DOE sites. Additionally, since this liability is essentially unfunded, it represents significant future funding requirements for the Department.

Pensions and Other Actuarial Liabilities of \$6.3 billion (FY 1996-\$6.1 billion) represent amounts which the Department has obligations to pay for specified benefits to contractor employees having approved defined benefit pension plans and postretirement benefits other than pensions. The Department has a unique contractual relationship with these contractor employees that makes the Department ultimately responsible for funding the defined benefit pension and postretirement benefit plans and any related liabilities. Defined benefit pension plans provide benefits, such as a percentage of the final average pay for each year of service, while postretirement benefits other than pensions include predominantly postretirement health care benefits.

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION

During FY 1997, the Department implemented the Office of Management and Budget's Statement of Federal Financial Accounting Standards Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. The main objective of this Standard is to provide reliable and timely information on the full cost of Federal programs. To comply with this Standard, the Department's business lines were divided into 52 responsibility segments, representing major elements of the Department's mission, and processes and systems were modified to accumulate the full cost information. This resulted in the allocation of costs totaling approximately \$3.5 billion to the 52 responsibility segments in addition to those costs charged directly to each segment.

REVENUES AND FINANCING SOURCES - Total revenues and financing sources consist primarily of the following:

Appropriated Capital Used of \$20.0 billion represents the funds made available to the Department to perform its mission through congressional appropriations. These appropriations are recognized as financing sources at the time the related expenses are incurred and the assets are consumed in operations.

Revenues from Goods and Services Provided are \$6.2 billion. This amount consists of public revenues of \$4.3 billion predominantly from the sale and transmission of electric power and the sale of oil from the Department's reserves, and intragovernmental revenues of \$1.9 billion from work done for others.

Other Revenues and Financing Sources of \$1.2 billion consist primarily of Nuclear Waste Fund fees assessed, revenues collected for the Federal Energy Regulatory Commission, and revenues recognized for the Petroleum Pricing Violation Escrow Fund.

EXPENSES - The revenues contained on the Consolidated Statement of Operations and Changes in Net Position are impacted by expenses and an adjustment due to a change in estimating the unfunded environmental liability (\$47.7) billion and primarily consist of the following:

Program Expenses of \$11.3 billion make up the majority of the Department's expenses and are categorized by business line and explained in detail in the supplementary information provided after the notes to the financial statements. The fifth business line, Economic Productivity, cuts across multiple organizational missions, funding levels and activities and, therefore, is included within the other four business lines. These expenses are presented in Table 1.

Expenses by Business Line:

(in billions)

Energy Resources	\$1.7
National Security	5.9
Environmental Quality	1.2
Science and Technology	<u>2.5</u>
Total	\$11.3

Table 1., Business Line Expenses

Cost of Goods & Services Provided of \$4.7 billion represents costs incurred in generating the \$6.2 billion of public and intragovernmental revenues from goods and services provided.

Other Expenses of \$3 billion represent a reduction in the value of the nuclear materials stockpile for materials that were declared excess to national security requirements (\$1.3 billion); a write-off of property, plant, and equipment due to the change in DOE's capitalization threshold (\$.7 billion); interest costs accrued by the power marketing administrations on amounts owed to Treasury (\$.5 billion); and other miscellaneous costs (\$.5 billion).

Unfunded Liability Adjustment of (\$48.1) billion primarily consists of the net decrease in environmental liability estimates resulting from the accelerated cleanup approach for the Environmental Management program.

More detailed explanations of these and other balances on the consolidated financial statements are included in the Notes to Financial Statements.

Financial Performance Measures

Executive Information System

The Department has aggressively moved towards developing and initiating an Executive Information System (EIS) to make useful financial information readily available to the Department's managers. During FY 1997, an initial pilot system was developed and deployed to selected Headquarters and Field Office staff to support summary analyses for senior management use and provide information for external summary level reporting. The initial pilot system provides executives and senior managers immediate access to summary information in the following areas: funding, status of obligations, travel, functional costs, program direction/departmental administration, and employee demographics. **Chart 1** displays the Headquarters and Field Offices utilizing the capabilities available on the EIS. The offices participating in the initial pilot represent 35 percent of the total number of offices anticipated to utilize the EIS. The Department plans to expand the EIS capabilities to all Field Offices and Headquarters Offices during FY 1998.

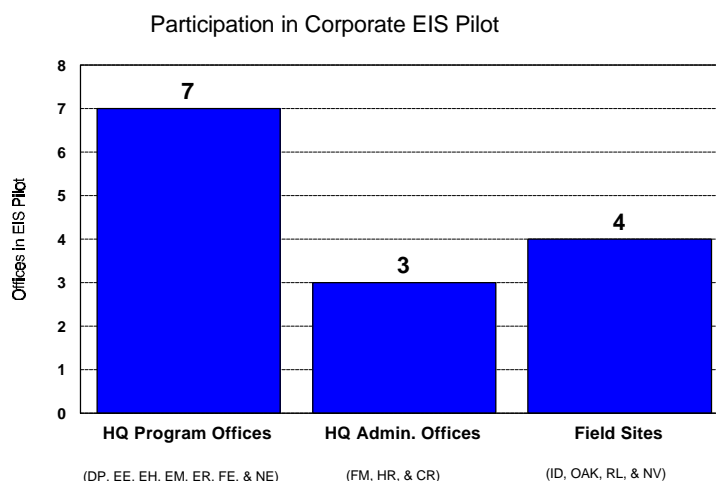


Chart 1

Payment Performance

Prompt Payment. The Department is committed to meeting Federal government goals established by the Office of Management and Budget and enacted legislation related to payments made by Federal agencies. The Department's FY 1997 on-time payment performance percentage rate was 95 percent. **Chart 2** displays the Federal government's prompt payment goal and the Department's accomplishments for FY 1994-FY 1997.

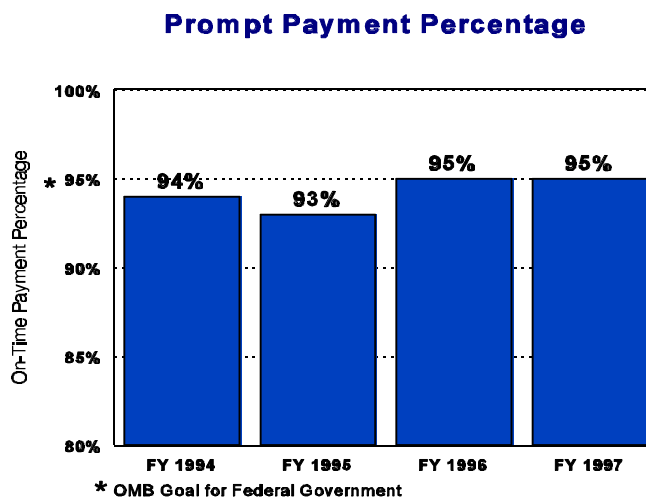


Chart 2

Electronic Funds Transfer. The Debt Collection Improvement Act of 1996 requires the use of electronic funds transfer (EFT) for all Federal payments made after January 1, 1999, with limited exceptions. The results portrayed in **Chart 3** demonstrate the Department's efforts to implement the Governmentwide mandate to fully utilize Electronic Funds Transfer for payments. Overall performance during FY 1997 fell slightly short of goals due to efforts required to successfully consolidate payment processes for 19 accounting offices into 3 financial service centers.

Travel Payments. The goal for average processing time from the receipt of travel voucher to final payment

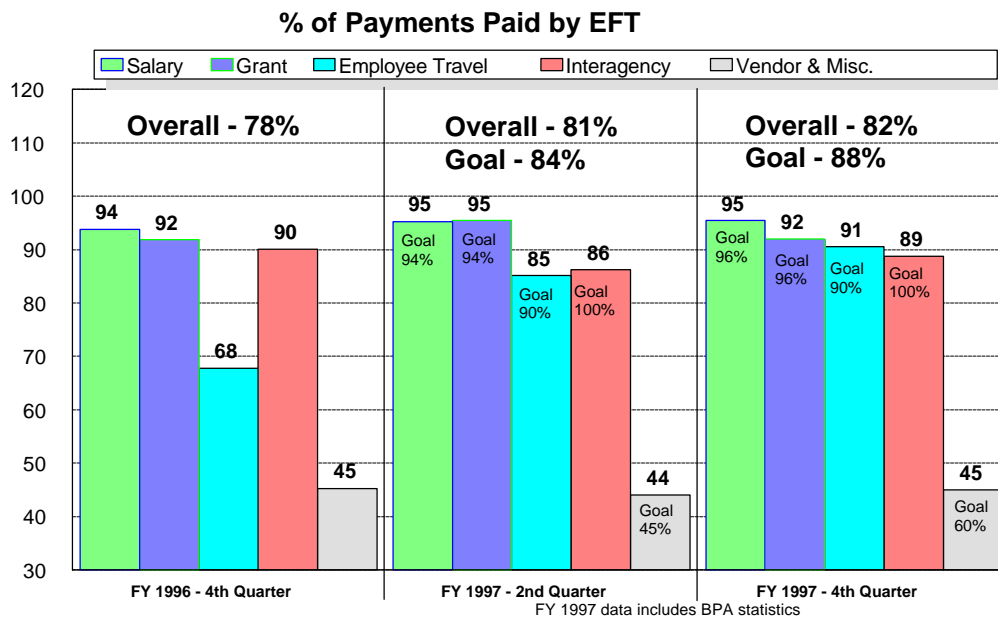


Chart 3

of the travel voucher is 10 days or less, as established by OMB. As **Chart 4** shows, the Department has exceeded OMB's goal and continues to improve customer service by further reducing the processing time.

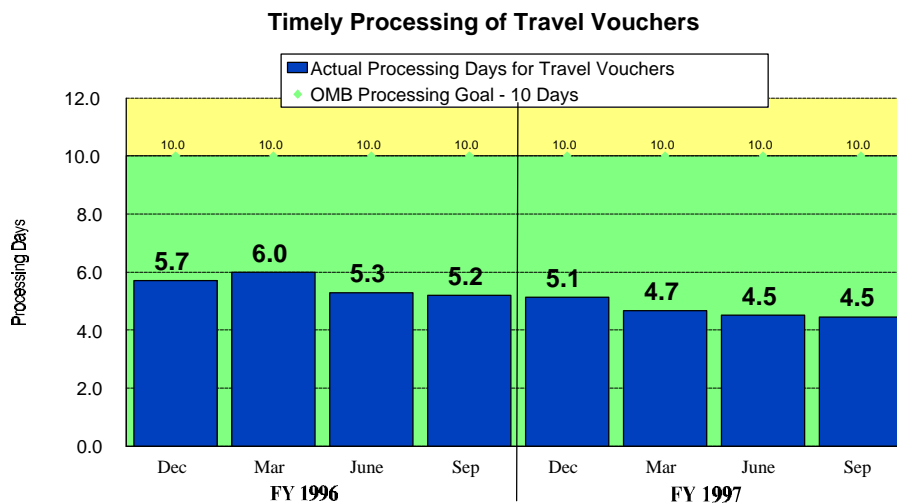
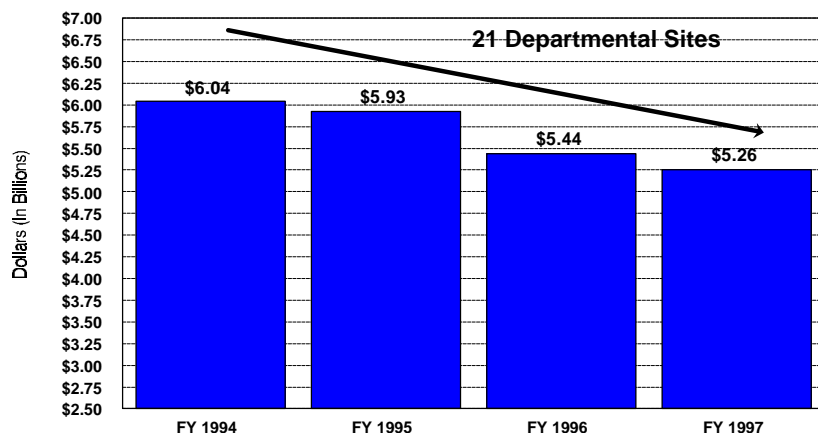


Chart 4

Functional Support Cost Reporting

Over the past several years the Department has made significant progress in controlling functional support costs across the complex. Functional support activities are required to be performed, but are not directly tied to mission activities and do not include the costs of capital equipment and construction. Examples of

Managing Functional Support Costs



Costs have been estimated based on subsequent years actual costs for the following:
FY 1994- LANL, SNL, ANL, LLNL & LBNL, and FY 1995- ANL

Chart 5

functional support activities include: maintenance, procurement, information/outreach services, safeguards and security, financial services, and safety and health. The Department has initiated efforts to compile, analyze and monitor functional support costs provided by the Department's major contractors at 21 Departmental sites. A reporting system was established during FY 1997 to accumulate data on functional support costs for FY 1994 through FY 1997. **Chart 5** displays the downward trend as the Department focuses to control and monitor these costs.

Balances of Uncosted Obligations

The Department's total uncosted obligation balance is the lowest it has been in over 15 years.

Over the past several years, the Department has made significant progress in analyzing and reducing the level of uncosted balances.

Significant balances of uncosted obligations occur when a Federal agency contracts out much of its appropriated funds, as does the Department. These uncosted balances represent the portion of contract obligations related to goods and services which have not yet been delivered.

While balances of uncosted obligations are natural and acceptable, concern is directed at agencies when excess uncosted balances are maintained. The Department's uncosted obligations are evaluated and considered in the budget formulation process.

As reflected in **Chart 6**, the Department has taken aggressive actions to understand what drives uncosted obligation balances, control and reduce these balances, and more actively consider these resources when determining budget estimates. A process improvement group developed new policy and a methodology for analyzing uncosted balances. This methodology established dollar level thresholds which are consistent with sound financial management for specific types of financial/contractual arrangements allowing the Department to evaluate its overall performance based on the variance between the calculated thresholds and actual balances. The chart excludes data for the Bonneville Power Administration, which is treated as a Government Corporation and reported \$51.1 million in uncosted balances for FY 1997.

UNCOSTED OBLIGATIONS BY FISCAL YEAR

(Excludes Bonneville Power Administration)

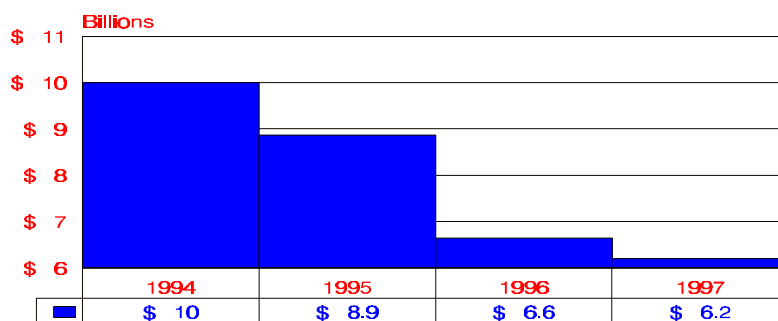


Chart 6